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Financial reports and audited financial statements, and reports of the Board of Auditors

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2006

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered, in advance, unedited form, the report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2006 (A/61/5 (Vol. II), chap. II). During its consideration of the report, the Advisory Committee met with members of the Audit Operations Committee, who provided additional information and clarification. Subsequent to its hearings with the Audit Operations Committee, the Committee received an advance, unedited version of the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors concerning United Nations peacekeeping operations for the financial period ended 30 June 2006 (A/61/811).

2. The present report addresses some general issues related to the findings of the Board of Auditors. The Advisory Committee takes into account the Board's comments on specific peacekeeping operations when it considers the performance reports and budgets of those missions. In addition, in its general report on peacekeeping operations, the Committee will make observations and recommendations on cross-cutting issues also dealt with by the Board. Furthermore, a number of issues covered by the Board, such as conversion of staff in the missions from the 300 series to the 100 series of contracts, quick-impact projects and resident auditors, will be the subject of upcoming reports. The Committee will therefore comment on those issues in the context of its consideration of the relevant reports.

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3. The Board's audit covered:

(a) Headquarters operations;

(b) Twelve active peacekeeping operations;

(c) Three active peacekeeping operations that were not visited because of the security situation prevailing at the time of the audit;

(d) The United Nations Logistics Base (UNLB) at Brindisi, Italy;

(e) Twenty-two completed missions;

(f) One liquidated mission;

(g) The Peacekeeping Reserve Fund;

(h) The support account for peacekeeping operations;

(i) Two missions funded under the regular budget.

The Board of Auditors also addressed requests made by the Advisory Committee and the General Assembly, as outlined in paragraph 5 of its report. The Board's main recommendations are summarized in paragraph 14 of the report.

4. As indicated in paragraphs 16 and 17 of the report, the Board continually coordinates with other oversight bodies and experts in the planning of its audits in order to avoid duplication. Accordingly, during its audit, the Board took into consideration the report of the Office of Internal Oversight Services on the comprehensive management audit of the Department of Peacekeeping Operations (A/61/743).

5. The Board has rendered an unqualified audit opinion on the financial statements of the United Nations peacekeeping operations; however, in so doing, it has drawn attention to the following three matters of concern:

(a) Outstanding assessed contributions older than 12 months for peacekeeping operations amounted to $706.3 million of the total outstanding assessed contributions for peacekeeping operations of $1.27 billion. The Organization has made no provision for delays in collection and explained that these contributions represent binding commitments of Member States;

(b) The savings on or cancellation of prior-period obligations amounted to $304.2 million, representing an increase of 81.3 per cent over the amount of $167.8 million for the preceding period. Based on the accounting policy that recognizes obligations as part of expense prior to their actual disbursement, the Board is concerned that prior-year expenditures were overstated;

(c) Note 13 to the financial statements did not disclose the actuarial valuation of liabilities for after-service health insurance of personnel in the peacekeeping operations. The provision in respect of peacekeeping staff has not been separately determined and disclosed, but is reflected in the United Nations financial statements in aggregate with other United Nations Secretariat personnel.

6. The Advisory Committee points out that the issue of outstanding assessed contributions is a policy matter for decision by the General Assembly. As to the situation referred to in paragraph 5 (b) above, irrespective of the issue of accounting policy and notwithstanding the explanation provided by the Administration in

paragraph 41 of the report, a more detailed analysis is needed to get to the root of this persistent problem. The Committee points out that significant cancellation of prior-period obligations can indicate a requirement for better budget planning and administration and, unless otherwise explained, suggests overbudgeting. The Committee has consistently and repeatedly called for more accurate forecasting of requirements and for stricter control over obligations. Though there are inherent uncertainties in budgeting for peacekeeping, as compared with the regular budget, the United Nations now has enough experience to make significant progress in resolving these problems, especially in the more stable missions. The Committee will also address this issue in its general report on peacekeeping operations. The question of recognizing contingent liability for after-service health insurance is under active review by the Advisory Committee (see A/61/791) and the Assembly (see resolution 61/264).

7. In paragraph 10 of its report, the Board confirmed that, with respect to the recommendations it had made in its report for the period ended 30 June 2004, there were no significant outstanding matters, except for those addressed in its current report. With regard to the period ended 30 June 2005, the Board reported in paragraph 11 that of a total of 72 recommendations, 25 (35 per cent) had been implemented, while 44 (61 per cent) were under implementation and 3 (4 per cent) had not been implemented.

8. The Advisory Committee notes that many of the Board's recommendations for the period ended 30 June 2006 are reiterations of recommendations it made for the period ended 30 June 2005. **In the view of the Advisory Committee, this may not be due solely to the persistence of the same problems year after year; rather, some of the Board's recommendations by nature require longer-term implementation. In this regard, the Committee welcomes the Board's efforts to formulate its recommendations in a manner which facilitates the process of implementation, including measurement of progress achieved, and encourages it to enhance its efforts at improvement (see A/59/736, para. 5, and A/59/400, para. 9).**

9. The General Assembly, in its resolution 60/234 B, requested the Secretary-General, in future reports, to indicate an expected time frame for the implementation of the recommendations of the Board and the related recommendations of the Advisory Committee, as well as to provide full explanation for the delays in implementation of the recommendations of the Board for the period ended 30 June 2005 or the prior periods. **The Advisory Committee, while concerned about the late submission of the report of the Secretary-General on implementation of the recommendations of the Board of Auditors (A/61/811), notes the level of detail provided in that report, as well as the effort made to comply with General Assembly resolution 60/234 B.**

Procurement and contract management

10. The Advisory Committee notes that the Board has reiterated a number of its previous recommendations on procurement and contract management. Among other things, the Board has recommended that, in line with General Assembly resolution 57/279, the Administration identify obstacles that prevent the participation of developing countries and countries with economies in transition to ensure a more equitable geographical distribution of procurement contracts. The Board has also

noted that deficiencies still occurred in such areas as vendor registration, vendor performance evaluation and the adequacy of performance bonds, and that improvement was required in respect of procurement lead times and procurement planning. In addition, the Board has followed up on initiatives undertaken by the Administration to implement its previous recommendations on, inter alia, improving inter-agency procurement activities, developing guidelines for the registration of local vendors, reducing vacancy rates for procurement staff, ensuring appropriate training for procurement staff and monitoring of ex post facto procurement awards.

11. As indicated in paragraph 93 of the report, the Board reviewed 20 samples of systems contracts and observed that 14 of them, totalling $428.4 million, had performance bonds equivalent to $9.04 million, which was $33.8 million short of the $42.8 million minimum required level of 10 per cent. Furthermore, performance bonds pertained only to the original contract periods. As noted in paragraphs 96 and 97 of the report, the Procurement Service stressed that the decision to require a bond should be based on such factors as the contractor's reputation and experience, and the cost of the bond weighed against the potential risk to the Organization should the contractor fail to perform. The Procurement Service also commented that the first year of a system contract was normally where contractor performance was under high scrutiny; the risk was reduced after that period. The Procurement Service stated, furthermore, that the figures of 10 to 30 per cent of the contract value were guidelines and did not indicate minimum and maximum amounts. **Notwithstanding the views put forward by the Procurement Service, the Advisory Committee concurs with the Board that the Administration should comply with the guidelines of the Procurement Manual in order to ensure protection for the Organization against the risk of default on deliveries.**

12. **The Advisory Committee notes with interest the response of the Administration concerning efforts to bring down the vacancy rate for procurement staff, which currently stands at 22 per cent for international civilian procurement staff (see A/61/811, paras. 141-143).** Problems cited included the increasing hesitancy of mission management to select technically cleared candidates for procurement positions if they do not possess strong United Nations peacekeeping procurement experience, as well as the fact that serving staff are expressing reluctance to continue performing procurement functions owing to developments related to the oil-for-food investigations and recent procurement audits. To address the vacancy situation, the Department of Peacekeeping Operations has recruited a group of 10 highly qualified external procurement professionals through a competitive selection process. Prior to their deployment to the field, intensive training in United Nations procurement policies and procedures was provided to these individuals at Headquarters and UNLB from 15 January to 9 March 2007. The objective was to increase procurement capacity in the field with individuals who would bring technical expertise to the Organization and would be fully operational, with a solid grasp of United Nations procurement rules, policies and procedures upon arrival in the mission area. **The Advisory Committee commends these efforts.**

13. The Board has reiterated its recommendation that the Administration monitor ex post facto submissions to ensure adequate justification and accountability for delays. As noted in paragraph 118 of the report, under the delegation of procurement authority for missions, transactions that are estimated by the administrative heads of missions or by their authorized delegate to exceed $200,000 must be submitted to

the Procurement Service at Headquarters for review by the Headquarters Committee on Contracts. Ex post facto procurement awards and presentations to the Procurement Service are allowed only in cases of exigency. The Board has noted that the Controller issued a memorandum in September 2005 to all heads of departments and administrative heads of missions explaining that ex post facto cases were increasing at a disturbing rate and that the vast majority of the cases over the past few years could be attributed to inadequate planning and avoidable administrative delays.

14. In this connection, the Advisory Committee notes with interest that a field liaison team has been established to administer procurement cases submitted from peacekeeping missions for review by the Headquarters Committee on Contracts and that a new section for planning, compliance and monitoring is being created (see A/61/811, para. 37). **The Committee trusts that these initiatives will help to expedite the procurement process and ensure compliance with procurement rules. The experience gained through these initiatives should be presented in the next report by the Secretary-General on implementation of the recommendations of the Board.**

Air operations

15. **The Advisory Committee concurs with the Board's observations on budgeting for air operations.** As indicated in paragraph 137 of the Board's report, actual expenditures amounted to $345.7 million, or $104.9 million (23.3 per cent) less than the total amount budgeted of $450.7 million. Of the 165,709 flight hours budgeted, a total of 57,264, or 34.6 per cent, were utilized, continuing a trend of what appears to be overbudgeting for air transportation costs. As noted in paragraph 138 of the report, the Department of Peacekeeping Operations has issued aviation budget guidelines and a template to aid in the preparation of aviation budgets. The Department also reports that air transport officials have conducted specialist training on budget preparation at six missions (the United Nations Operation in the Congo, the United Nations Mission in Liberia, the United Nations Mission in Sierra Leone, the United Nations Mission in the Sudan, the United Nations Organization Mission in the Democratic Republic of the Congo and the United Nations Mission in Ethiopia and Eritrea). **The Advisory Committee welcomes these measures. The Committee points out that realistic estimates should take into account usage patterns as well as any known variables which would affect the usage of air assets, such as a change in the mandate or activities related to elections.**

16. In paragraph 144 of its report, the Board states that only 16 of the 53 registered air carriers that have contracts with the United Nations have been subjected to an on-site aviation quality inspection, as required under the aviation quality assurance programme of the Department of Peacekeeping Operations. The Department has indicated that such inspections could not be conducted owing to a lack of resources. The Advisory Committee shares the Board's concern that the Administration's inability to implement the pre-qualification of air carriers fully before contracting with them compromises the reliability of aircraft services and the safety of passengers. The Committee notes, as indicated in paragraph 146 of the report, that the Department has prepared a comprehensive prioritized programme for conducting inspections. Under the programme, inspections will coincide with the acquisition process of new contracts so that air carriers under consideration for award of a contract are inspected before the contract is awarded.

17. Both the Board and the Advisory Committee have called for a cost/benefit analysis of the new costing structure for air operations (see A/59/736, paras. 88 and 89, A/60/5 (Vol. II), chap. II, para. 166 and A/60/784, para. 21). The Board notes in paragraph 151 of its report that the Procurement Service is in the process of recruiting a consultant to carry out a study. **It is the view of the Advisory Committee that a cost/benefit analysis of the new costing structure for air operations is long overdue and that the study should be expedited.**

Vehicle fleet management

18. In paragraph 172 of its report, the Board recommends that the Department of Peacekeeping Operations enforce the vehicle rotation policy set out in the surface transport management procedures for the field. For its part, the Department notes that other practical operating factors should be considered in implementing the policy (see A/61/811, para. 48). The Department points out, for example, that vehicles used by the civilian police, while in the same category as standard vehicles used by civilians, are fitted with various additional forms of communication and safety and recovery equipment and have a unique colour coding, and therefore cannot easily be rotated with such standard vehicles. The Department also emphasizes that the distribution of vehicles over the mission area and the cost of rotation should be taken into account. Vehicles in remote locations are rotated less frequently, as the only mode to move them is by air. Furthermore, vehicles used in harsh terrain may require rotation before higher mileage vehicles used for easier terrain. **In the view of the Advisory Committee, policies such as the vehicle rotation policy as set out in the surface transport management procedures for the field should be understood as guidelines to be implemented flexibly and practically, taking into account the specific circumstances in the field.**

19. As indicated in paragraph 185 of the report, for the 12-month period ending 30 June 2006, a total of 7,043 accidents occurred, resulting in accident costs estimated at $2,494,267. The Department of Peacekeeping Operations has taken a number of measures to address the problem, including the appointment of road safety officers, the organization of Road Safety Week in missions, the withdrawal of driving privileges and the use of CarLog to monitor speed limits. The Department has also appointed a transport safety officer at Headquarters and is collaborating with the Department of Safety and Security on improved monitoring of the operators of United Nations vehicles (see A/61/5 (Vol. II), chap. II, para. 192, and A/61/811, para. 53).

Asset management

20. The Board indicates in paragraph 208 of its report that property valued at approximately $62.5 million (based on original costs) in respect of 15 missions and UNLB was written off during the financial period ended 30 June 2006, compared with $43.7 million in the previous period. Property pending write-off and disposal as at 30 June 2006 amounted to $39.8 million, compared with $39.3 million as at 30 June 2005. The Board of Auditors has noted that the Headquarters Property Survey Board has a backlog of at least 400 cases and that it serves all agencies of the United Nations system on procurement matters and cases of write-off above a certain threshold level. The Board of Auditors also notes that the established thresholds setting the limits of authority were set long ago when prices were lower and missions fewer. The Board of Auditors recommends that the Department of

Peacekeeping Operations revisit the delegations of authority for the purpose of aligning limits with current situations and study the possibility of setting up a Headquarters property board within the Department to expedite processes on approval of write-offs and disposals (A/61/5 (Vol. II), chap. II, para. 214). **The Advisory Committee supports this recommendation and notes the intention of the Department of Peacekeeping Operations to propose to the Department of Management a review of the current delegation of authority regarding the processing of property survey cases (A/61/5 (Vol. II), chap II, para. 215).**

Integrated missions

21. The Advisory Committee notes the progress in the implementation of the Board's recommendation that the Administration should formalize the concept of integrated mission partnerships, determine their function, structure and role and finalize guiding principles, policies and guidelines to govern them. As indicated in paragraph 244 of the report, following extensive inter-agency consultations, a revised note of guidance on integrated missions was issued on 7 February 2006, which addressed the Board's concerns. Furthermore, the Committee notes that the integrated missions planning process guidelines were endorsed by the Secretary-General's Policy Committee on 13 June 2006. **The Advisory Committee looks forward to an assessment of the effectiveness of the guidelines by the Board once the guidelines have been in effect for a sufficient period of time.**

Regional coordination

22. In paragraph 250 of its report, the Board of Auditors has reiterated its recommendation that the Department of Peacekeeping Operations, in collaboration with the relevant peacekeeping missions, develop and implement regional coordination plans aligned to the missions' objectives, and the Administration has again rejected the recommendation, stating that a plan for regional coordination is not appropriate and that the focus should instead be on inter-mission cooperation to address cross-border activities (see A/61/811, para. 70). In its last report on the recommendations of the Board, the Advisory Committee had stated that, while fully aware of the necessity to comply with mission mandates, it did not understand the reluctance of the Administration to systematize cooperation through the development of appropriate plans instead of continuing to rely on ad hoc arrangements (A/60/784, para. 24). The General Assembly, in section IX, paragraph 2, of its resolution 60/266, requested the Secretary-General to develop and implement regional coordination plans aligned to the missions' objectives, while mindful of the specific mandate of each mission, and to report on the progress achieved in the context of his next overview report.

23. The Advisory Committee notes that despite its non-acceptance of the Board's recommendation, the Administration has reported on progress achieved in the development and implementation of regional coordination/inter-mission cooperation plans and initiatives in paragraphs 95 to 102 of its overview report (A/61/786), which it confines to cross-border activities. The Administration also discusses cross-cutting services at some length in paragraph 24 of the overview report. **The Advisory Committee notes that the Administration is indeed engaged in regional coordination. The Committee continues to believe that planning for such regional cooperation is desirable. It therefore reiterates its support for the Board's recommendation.**

Support account

24. In its general report on peacekeeping operations in 2005, the Advisory Committee stated its view that the Board could make an essential contribution to a further analysis of how the support account has evolved to its current application and configuration and how it may further evolve. Accordingly, the Committee requested the Board to undertake an analysis of how fluctuations in the level of peacekeeping activities affect the level of required Headquarters backstopping; an analysis of which factors determine the level of required backstopping; and the delineation of functions as to what must be performed at Headquarters and what can be carried out in the field, as well as to look into the relationship between troop strength and the required civilian support component of a mission (see A/59/736, paras. 20 and 21). In its report on the support account, the Committee reiterated the request (see A/60/807). As indicated in paragraph 262 of the Board's report, further to the Advisory Committee's request, the Board met with officials of the Department of Peacekeeping Operations to discuss this matter. It was agreed that the Department would undertake the analysis with inputs from the Office of Internal Oversight Services for review by the Board. At the time of the Board's audit, however, this analysis was not yet finalized.

25. In paragraph 13 of its resolution 60/268, the General Assembly requested the Secretary-General to undertake a comprehensive analysis of the evolution of the support account, on the basis of the recommendation of the Advisory Committee and in close consultation with the Office of Internal Oversight Services, and to report thereon to the Assembly at the second part of its resumed sixty-first session within the context of his next budget proposal for the support account.

26. During its consideration of the overview report of the Secretary-General of the financing of the United Nations peacekeeping operations (A/61/786), the Advisory Committee was informed that the Secretariat had commissioned a study, the findings of which would provide a basis for formulating a model for determining the level of resources in the support account for presentation to the General Assembly through the Advisory Committee. The Committee was also informed, however, that in view of the restructuring of the Department of Peacekeeping Operations into two new departments, the finalization of the proposal would be postponed until the departmental structures had stabilized. Consequently, the model would not be presented to the Assembly until the resumed sixty-second session.

27. The Advisory Committee notes with concern the Board's observation in paragraphs 288 and 289 of its report that the activities in the workplans for support account posts that it reviewed were stated in general terms and not in a manner that would facilitate the identification of their relation to peacekeeping operations. Of the five workplans it reviewed, three showed activities that could not be identified as peacekeeping-related, while two showed only minimal activities that were specifically for peacekeeping. The Board has expressed concern regarding the difficulties this poses for determining whether posts under the support account have been used and continue to be used for the intended purpose of backstopping peacekeeping operations. **The Committee supports the Board's recommendation that the Administration ensure that job descriptions and workplans provide adequate and updated information to facilitate review and verification of the use of posts as intended (see A/61/5 (Vol. II), chap. II, para. 290).**

Rations

28. In response to problems noted by the Board in the management of rations, the Department of Peacekeeping Operations has indicated that the new rations contracts include a clause that requires the rations contractor to provide the United Nations with a performance credit up to a percentage of the monthly invoice amount for the failure of the contractor to meet specified acceptable performance levels (A/61/811, para. 77). The Department also notes that owing to long lead times and the large investment by rations vendors to service the contracts, it is not feasible to have a stand-by arrangement for rations. As a contingency plan, the Department will establish and manage two basic food reserves: a 14-day frozen and dry food reserve and a 14-day combat ration pack reserve. Furthermore, the contingency plan will allow the Department to obtain rations from other providers in the mission region. To this end, the Department has included language in the new statement of works and draft contracts that allows any rations contractor to provide rations to the United Nations for use in a mission other than the one it is contracted to service (A/61/5 (Vol. II), chap. II, para. 295). **The Advisory Committee welcomes these measures.**

Training

29. The Board has recommended that the Department of Peacekeeping Operations implement measures to monitor missions' efforts in improving training needs assessment and to evaluate the cost-effectiveness of the current mode of training (A/61/5 (Vol. II), chap. II, para. 309). In the report on implementation of the recommendations of the Board, the Department outlines measures it is taking to comply (see A/61/811, paras. 84-88), including: approval and issuance on 16 March 2006 of the Training Strategy for United Nations Peacekeeping Operations 2006-2008; undertaking a training needs assessment for senior mission leadership; establishment of a mission support cell at Headquarters to provide daily support to the integrated mission training centres; and conducting training evaluations. In addition, the Department indicates its intention to shift the focus for training to the Training Delivery Section based at UNLB during 2007. The Department also states that by 2008 a baseline of training data, including costs, will be established. The Committee will comment further on training in its general report on peacekeeping operations.

Fraud and presumptive fraud

30. A total of seven cases of fraud and presumptive fraud were reported to the Board for the financial period ended 30 June 2006. The Administration also indicated three additional cases of fraud at the United Nations Disengagement Observer Force, although the corresponding reports were still pending. As indicated in paragraph 344 of the Board's report, the Organization suffered a loss of $5,567, while at the same time it was at risk of not being able to account, in whole or in part, for the amount advanced for quick-impact projects totalling $32,518. The Board had recommended in its previous report that the Administration, in close consultation with missions, carefully analyse the elements leading to the reported fraud and take the necessary punitive measures, draw lessons and share those lessons systematically with other missions. The Administration informed the Board that implementation of its recommendation was in progress and that the lessons learned from the final report on the analysis would be shared directly with all missions.